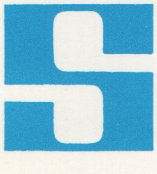

SYDNEY STEEL CORPORATION

**SYDNEY STEEL CORPORATION**

Head Office and Sales
P.O. Box 1450
Sydney, Nova Scotia, Canada
B1P 6K5
Tel. Area (902) 564-7900
Telex CN-CP 019-35197
Cable Address: "SYSTCO"

October 15, 1993

Messrs. Hamilton, Douglas, Sobey,
Crawford and MacNeill
Retiring Members of the Board of Directors
Sydney Steel Corporation
Sydney, Nova Scotia

Dear Sirs:

The Board of Directors of Sydney Steel Corporation wish to express their appreciation for all the time and effort you have dedicated to the improvement of the company over the past years.

We would also like to take this opportunity to wish you the very best in all your future endeavours.

On behalf of the Board of
Directors of Sydney Steel
Corporation

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P.O. Box 1450
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B1P 6K5
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Telex CN-CP 019-35197
Cable Address: "SYSTCO"

October 4, 1993

Messrs. Hamilton, Douglas, Sobey,
Crawford and MacNeill
Retiring Members of the Board of Directors
Sydney Steel Corporation
Sydney, Nova Scotia

Dear Sirs:

On behalf of the employees of Sydney Steel Corporation, we would like to take this opportunity to express our gratitude to you for your diligent and helpful efforts over these past years. The results of these efforts, often under very trying circumstances, are summarized in a copy of a presentation made to the present Board of Directors on September 27, 1993.

It is hoped that this presentation, along with a few enclosed mementos of Sydney Steel, will serve to remind you of the appreciation felt by the employees of Sydney Steel Corporation and in particular, by the undersigned who had the pleasure of working with you.

Sincerely yours,

THE MANAGEMENT OF SYDNEY
STEEL CORPORATION

SYDNEY STEEL CORPORATION

# SYDNEY STEEL CORPORATION

# PRESENTATION TO BOARD OF DIRECTORS

# SEPTEMBER 27, 1993

SYDNEY STEEL CORPORATION

# A G E N D A

- Overview

- Performance History April/1990 to date
  - Financial
  - Production
  - Yield

- Business Plan 93/94

- Marketing Update
  - Past years
  - Current year
  - Next (4) years

- Options
  - Plant Shutdown
  - Operate - Debt Free Structure

SYDNEY STEEL CORPORATION

# OVERVIEW

- Plant Modernization - 1990-91

- New Management - August, 1991

- Markets - Declining Domestic Markets
  - Desperation pricing in Export Market
  - No entry to U.S. Markets
  - Development and entry into Head Hardened Market
  - Entry into Non Rail Market (axle)
  - Reestablished relations with C.P.
  - Entry into large China Market

- Improved Financial Performance - To date
  - Future

SYDNEY STEEL CORPORATION

**CABINET PRESENTATION**

**NOVEMBER 1991**

**FORECAST VS ACTUAL - F91-92**

**$ MILLIONS**

| | FORECAST | ACTUAL |
|---|---|---|
| SHIPMENTS N.T. | 178,800 | 131,400 |
| SALES | $ 80.7 | $ 59.7 |
| CASH PROFIT <LOSS> | $ <36.7> | $ <39.9> |

1ST 6 MOS. #<24.0>

LAST 6 MOS. #<15.9>

OPERATIONS - QUALITY PROBLEMS
- CN
- MEXICO

SYDNEY STEEL CORPORATION

# 1992-93 BUSINESS PLAN

## PROFIT <LOSS> STATEMENT

## $MILLIONS

| | OPTIMISTIC | MOST LIKELY | PESSIMISTIC |
|---|---|---|---|
| SHIPMENTS - N.T. | 248,300 | 211,800 | 176,800 |
| SALES | $ 116.0 | $ 99.4 | $ 83.0 |
| CASH PROFIT <LOSS> | $ <11.2> | $ <17.6> | $ <23.0> |

## PERFORMANCE 1992-93

| | REVISED FORECAST OCTOBER, 1992 | 1992-93 ACTUAL |
|---|---|---|
| SHIPMENTS - N.T. | 167,000 | 150,000 |
| SALES | $ 80.6 | $ 71.2 |
| CASH PROFIT <LOSS> | $ <21.3> | $ <20.4> |

MAJOR REASON FOR DIFFERENCE: MARKET CONDITIONS

SYDNEY STEEL CORPORATION

## OPERATING PERFORMANCE

### $ MILLIONS

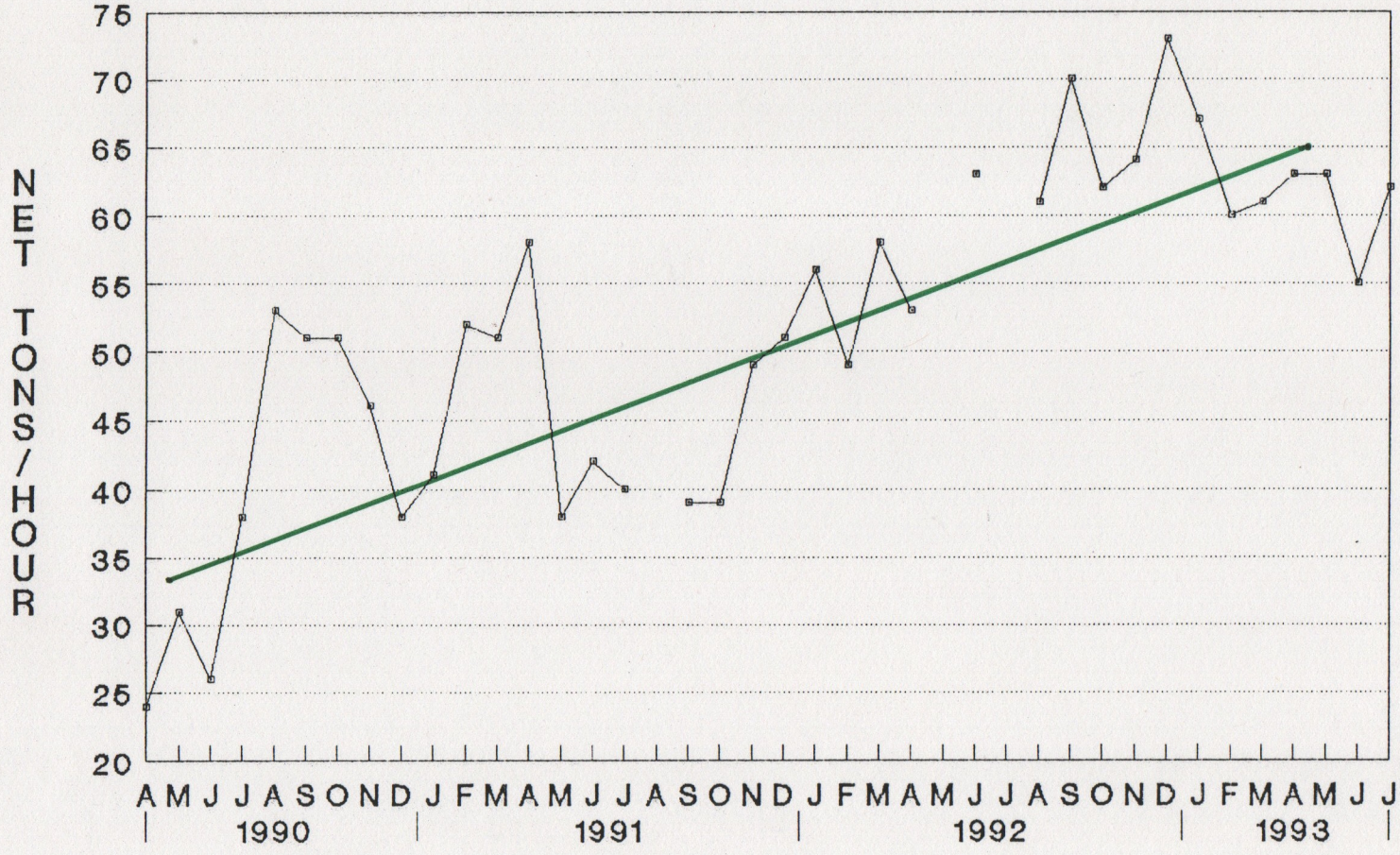
| | (ACTUAL) | | | BUSINESS PLAN |
|---|---|---|---|---|
| | 1990/91 | 1991/92 | 1992/93 | 1993/94 |
| SHIPMENTS - N.T. | 122 | 131 | 150 | 233 |
| SALES | $ 54.7 | $ 59.7 | $ 71.2 | $ 120.1 |
| OPERATING PROFIT (LOSS) | $(36.3) | $(26.8) | $( 7.8) | $ 3.4 |
| OPERATING IMPROVEMENT | | $ 9.5 | $ 19.0 | $ 11.2 |
| GRANT IN L. OF TAX | $ (2.6) | $(2.6) | $ (2.6) | $( 2.6) |
| INTEREST | (5.1) | (8.5) | (9.5) | (12.9) |
| PAST SERVICE PENSION | (2.2) | (2.2) | (2.5) | (3.3) |
| ASSET SALE | 0.1 | 0.2 | 2.0 | 0 |
| CASH PROFIT (LOSS) | $(46.1) | $(39.9) | $(20.4) | $ (15.4) |
| CASH IMPROVEMENT | | $ 6.2 | $ 19.5 | $ 5.0 |

# 39.7 IMPROVEMENT

# 30.7 IMPROVEMENT

SYDNEY STEEL CORPORATION

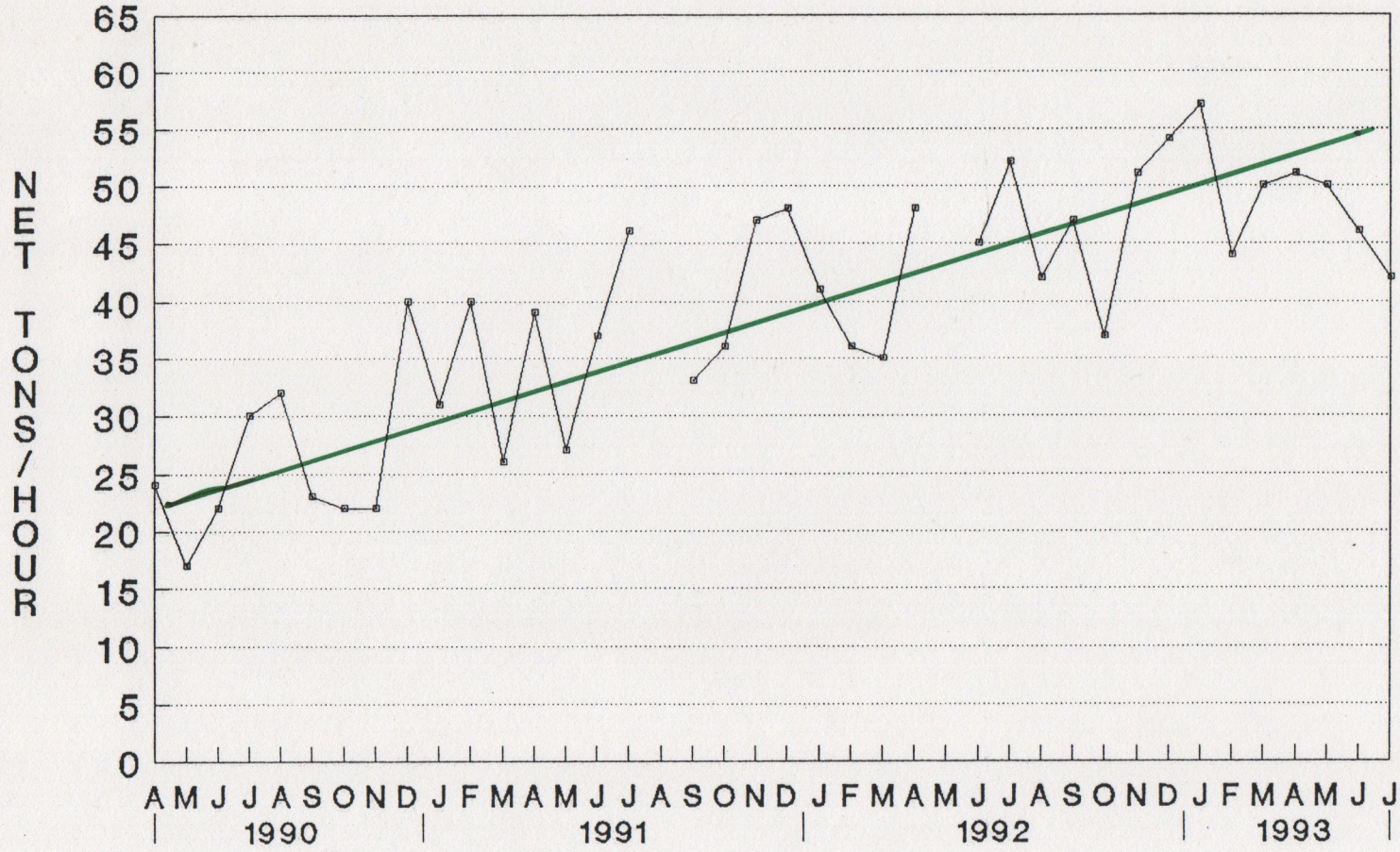
# MELT SHOP
## NET TONS/HOUR



SYDNEY STEEL CORPORATION

# UNIVERSAL MILL

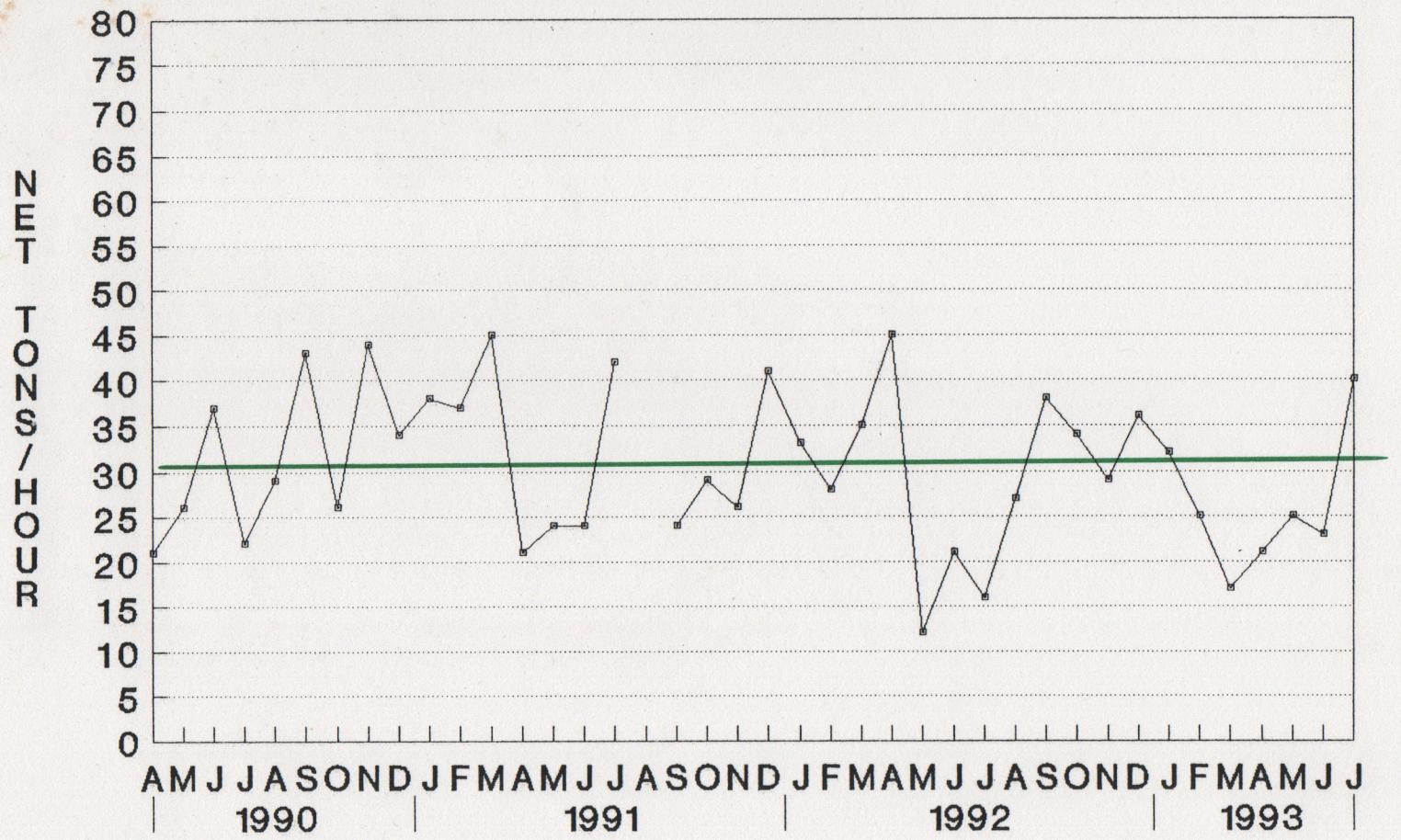
## NET TONS/HOUR



SYDNEY STEEL CORPORATION

# RAIL FINISHING MILL

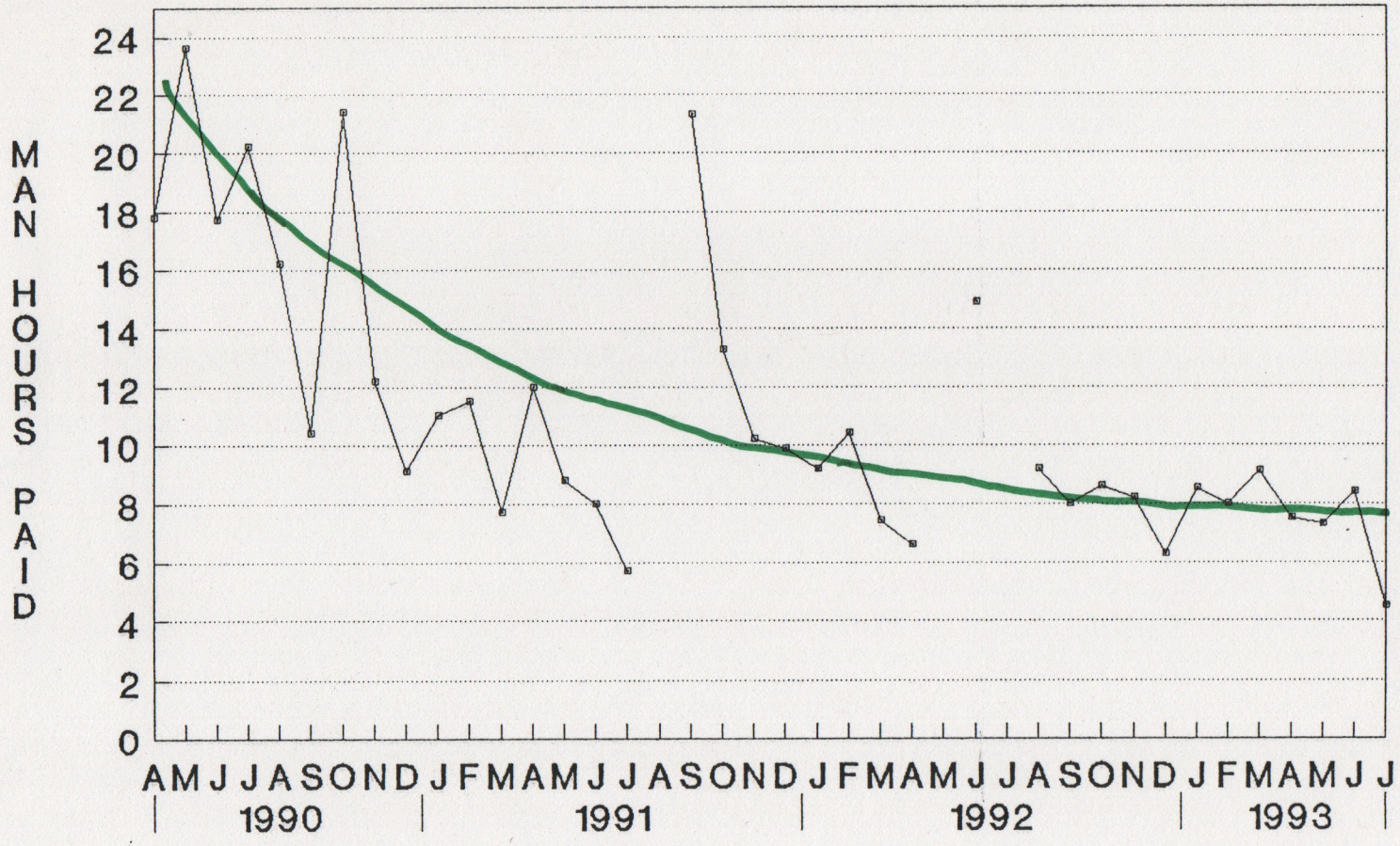
## NET TONS/HOUR



SYDNEY STEEL CORPORATION

# MAN HOURS PAID

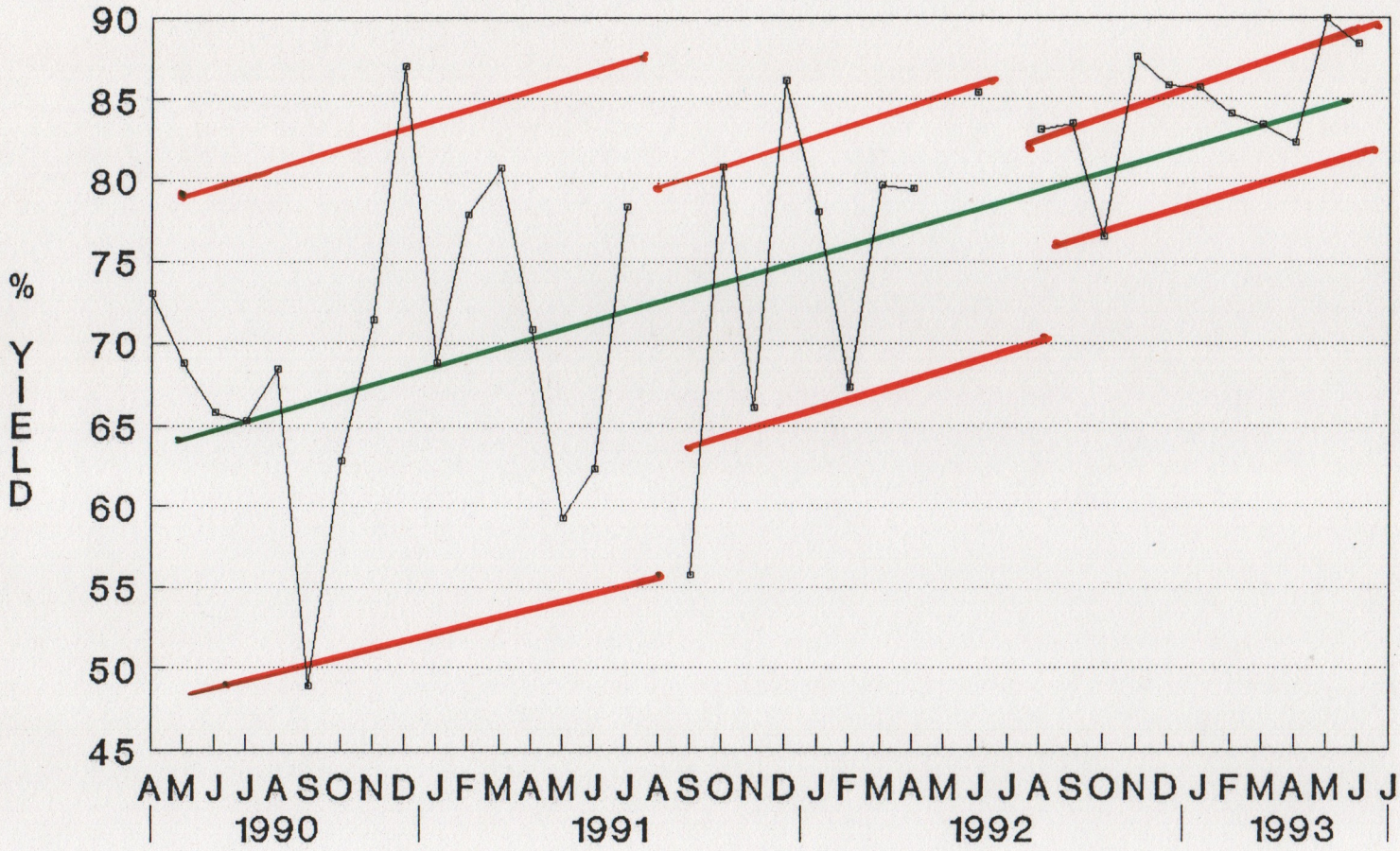
## NET TON OF G.P.O.



SYDNEY STEEL CORPORATION

# OVERALL YIELD

## LIQUID STEEL TO FINISHED RAIL



SYDNEY STEEL CORPORATION

SYDNEY STEEL CORPORATION

1993-94 BUSINESS PLAN - FINANCIALS

($ MILLIONS)

| | Pessimistic | Most Likely | Optimistic |
|---|---|---|---|
| Shipments - N.T. (000's) | 223 | 233 | 250 |
| Sales | $ 113.4 | $ 120.1 | $ 129.6 |
| Operating Profit (Loss) | $( 0.9) | $ 3.4 | $ 6.4 |
| Non-Operating Ongoing Costs | | | |
| Grant in Lieu of City Taxes | ( 2.6) | ( 2.6) | ( 2.6) |
| Past Service Pension | ( 3.3) | ( 3.3) | ( 3.3) |
| Interest | ( 12.9) | ( 12.9) | ( 12.9) |
| CASH PROFIT (LOSS) | $( 19.7) | $( 15.4) | $( 12.4) |

SYDNEY STEEL CORPORATION

## OPPORTUNITIES FOR FURTHER IMPROVEMENT

- Strengthen organization
- Obtain flexible work practices
- Continued effort to improve finishing productivity
- Further manhours per ton improvement
- Continue emphasis on profit improvement program
- Obtain quality certification to modern standards
- Continue to strengthen customer relations

SYDNEY STEEL CORPORATION

# MARKETING PERFORMANCE

| | ACTUAL | | | BUSINESS PLAN |
|---|---|---|---|---|
| | 1990-91 | 1991-92 | 1992-93 | 1993-94 |
| SHIPMENTS - N. Tons | | | | |
| Domestic - Reg. | 27.2 | 31.2 | 51.2 | 53.5 |
| - H.H. | - | 2.3 | 7.5 | 24.0 |
| - Ind. | 1.1 | 2.2 | 5.5 | 2.0 |
| Export | 90.0 | 78.5 | 59.2 | 90.0 |
| Non Rail | 3.2 | 17.2 | 26.3 | 63.0 |
| TOTAL | 121.5 | 131.4 | 149.7 | 232.5 |
| SELLING PRICE/N.T. | | | | |
| Domestic - Reg. | $595 | $585 | $552 | $570 |
| - H.H. | - | 720 | 740 | 741 |
| - Ind. | 250 | 257 | 263 | 270 |
| Export | 406 | 435 | 439 | 514 |
| Non Rail | 442 | 287 | 380 | 398 |
| AVERAGE | $448 | $454 | $476 | $517 |

SYDNEY STEEL CORPORATION

# MARKETING UPDATE

## BUSINESS PLAN 1993/94

N.T. (000's)

| | Plan 1993/94 | Shipped to Date | Orders on Hand | Total Committed |
|---|---|---|---|---|
| Domestic Rail | 80 | 27 | 64 | 112% |
| Export Rail | 90 | 41 | 39 | 89% |
| Non Rail Prod. | 63 | 32 | 20 | 83% |
| | 233 | 100 | 123 | 96% |
| Average Selling Price/N.T. | $517 | $475 | $540 | |

Additional Bus. Expected:

| | |
|---|---|
| Sysco Low Bidder - China | 27 N.T. |
| - China | 68 N.T. |
| Negotiating BCR | 3 N.T. |
| Forgings | 3 N.T. |

SYDNEY STEEL CORPORATION

## 5-YEAR SALES FORECAST

N. T. (000's)

| | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 |
|---|---|---|---|---|---|
| | N.T. | N.T. | N.T. | N.T. | N.T. |
| Shipments | | | | | |
| Domestic - Reg. | 53.5 | 64.5 | 67.0 | 65.5 | 65.0 |
| - H.H. | 24.0 | 30.5 | 33.0 | 34.5 | 35.0 |
| - Industrial | 2.0 | 2.0 | - | - | - |
| TOTAL | 79.5 | 97.0 | 100.0 | 100.0 | 100.0 |
| Export | 90.0 | 120.0 | 130.0 | 135.0 | 140.0 |
| Non Rail | 63.0 | 76.0 | 73.0 | 79.0 | 82.0 |
| TOTAL | 232.5 | 293.0 | 303.0 | 314.0 | 322.0 |
| Selling Price/Net Ton | | | | | |
| Domestic - Reg. | $570 | $575 | $580 | $580 | $580 |
| - H.H. | 741 | 753 | 760 | 760 | 760 |
| - Industrial | 270 | 300 | - | - | - |
| Export | 514 | 561 | 567 | 548 | 546 |
| Average Rail | 561 | 590 | 598 | 588 | 587 |
| Non Rail | 398 | 396 | 407 | 407 | 407 |
| AVERAGE | $517 | $539 | $552 | $542 | $541 |

SYDNEY STEEL CORPORATION

# OPTIONS

OPTION 1 - PLANT SHUTDOWN

(1) Mothball plant for future use

(2) Orderly shutdown - Dispose assets

(3) Orderly shutdown - Dispose assets - Create Industrial Park

OPTION 2 - OPERATE WITH DEBT FREE STRUCTURE

(1) Government ownership

(2) Sell to private investors

(3) Sell to employees/local investors

SYDNEY STEEL CORPORATION

## OPTION I - PLANT SHUTDOWN

- Complete and ship present orders (6-12 months)
- Cease quotation activity
- Curtail capital spending - necessary maintenance only

- Difficult to restart by purchaser
- Lost opportunity and sale value reduced

SYDNEY STEEL CORPORATION

# SYDNEY STEEL CORPORATION

## OPTION I - ORDERLY SHUTDOWN OF PLANT

## ESTIMATE OF DEBTS AND LIABILITIES TO BE ADDRESS UPON SHUTDOWN

($ MILLIONS)

| | | | |
|---|---|---|---|
| - Debt - Banks | $ 165 | - | $ 185 |
| - - Bonds | 15 | - | 16 |
| - Past Service Pension | 30 | - | 45 |
| - 1993 Pension Initiative | 10 | - | 12 |
| - Workers Compensation - Past Service | 26 | - | 30 |
| - Accounts Payable & Accrued Liabilities | 15 | - | 20 |
| - Severance Cost | 23 | - | 32 |
| - Shutdown Cost | 5 | - | 7 |
| Less: Inventory & Receivable Recovery | ( 10) | - | ( 20) |
| | $ 269 | - | $ 326 |
| | ≈ 300 | | |
| Ongoing annual costs - Mothballed operation | $ 3 | - | $ 4 |
| Disposal value of assets | 20 | - | 25 |
| Demolition and site cleanup | 5 | - | 10 |
| Set up Industrial Park | 3 | - | 5 |
| ANNUAL INTEREST COSTS | ≈ $25.0 MM/year | | |

SYDNEY STEEL CORPORATION

OPTION I - SHUTDOWN CASE

Other potential expenses associated with the shutdown include:

a) Hanna Mining litigation

b) Environmental liabilities

c) Further write-off of assets

d) Bid and performance bond guarantees

e) Grant in lieu of City taxes

Conclusions:

. Difficult to estimate cost of above but could represent major $.

SYDNEY STEEL CORPORATION

# LIABILITIES UPON SHUTDOWN

| | SHUTDOWN AND DISPOSAL | SHUTDOWN MOTHBALL FOR FUTURE USE | SHUTDOWN DISPOSAL OF ASSETS AND CREATE INDUSTRIAL PARK |
|---|---|---|---|
| WRITE-OFF | $ 300 | $ 300 | $ 300 |
| ASSET-SALE | <22> | - | <22> |
| DEMOLITION | 7 | - | 7 |
| SET UP INDUSTRIAL PARK | - | - | 4 |
| | $ 285 | $ 300 | $ 289 |

SYDNEY STEEL CORPORATION

# OPTION II - DEBT FREE STRUCTURE

. Write off current debt and liabilities A.S.A.P.

. Continue operations for minimum 3-5 years

- Government ownership

- Private ownership

SYDNEY STEEL CORPORATION

SYDNEY STEEL CORPORATION

OPTION II - DEBT FREE STRUCTURE

DEBTS & LIABILITIES

($ MILLIONS)

| | | | | |
|---|---|---|---|---|
| - | Debt - Banks | $ 165 | - | $ 185 |
| - | - Bonds | 15 | - | 16 |
| - | Past Service Pension | 30 | - | 45 |
| - | 1993 Pension Initiative | 10 | - | 12 |
| - | Workers Compensation - Past Service | 26 | - | 30 |
| - | Employee Severance | 2 | - | 7 |
| - | Accounts Payable & Accrued Liabilities | 23 | - | 32 |
| | **TOTAL** | $ 263 | | $ 314 |
| | **AVERAGE** | $ 288 | | |

Other Items

- Hanna Mining (Legal Dispute)
- City Taxes
- Bid & Performance Bonds

Conclusions:

. Write offs lower than shutdown case

. Minimizes environmental issues

SYDNEY STEEL CORPORATION

# SYDNEY STEEL CORPORATION

## OPTION II - DEBT FREE - GOVERNMENT OWNERSHIP
## CASH PROFIT (LOSS) RESULTS

($ MILLIONS)

| Profit (Loss) | Existing 1993-94 | FUTURE 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 |
|---|---|---|---|---|---|---|
| Shipments - N.T. (000's) | 233 | 233 | 293 | 303 | 314 | 322 |
| Sales | $ 120.1 | $ 120.1 | $ 158.0 | $ 167.3 | $ 170.3 | $ 174.1 |
| Operating Profit (Loss) | $ 3.4 | $ 3.4 | $ 12.6 | $ 19.8 | $ 19.3 | $ 19.9 |
| Property Taxes | ( 2.6) | ( 0.8) | ( 0.8) | ( 0.8) | ( 0.8) | ( 0.8) |
| Past Service Pension | ( 3.3) | - | | - | - | - |
| Profit (Loss) before Interest | $( 2.5) | $ 2.6 | $ 11.8 | $ 19.0 | $ 18.5 | $ 19.1 |
| Interest | ( 12.9) | ( .8) | ( 0.8) | ( 0.8) | ( 0.8) | ( 0.8) |
| Cash Profit (Loss) | $( 15.4) | $ 1.8 | $ 11.0 | $ 18.2 | $ 17.7 | $ 18.3 |
| Non P. & L. Cash Required | | | | | | |
| Capital | | ( 5.0) | ( 5.0) | ( 5.0) | ( 5.0) | ( 5.0) |
| Resultant Cash Flow | | $( 3.2) | $ 6.0 | $ 13.2 | $ 12.7 | $ 13.3 |

SYDNEY STEEL CORPORATION

# SYDNEY STEEL CORPORATION

## OPTION II - DEBT FREE - PRIVATE OWNERSHIP
## CASH PROFIT (LOSS) RESULTS

($ MILLIONS)

| Profit (Loss) | Existing 1993-94 | FUTURE 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 |
|---|---|---|---|---|---|---|
| Shipments - N.T. (000's) | 233 | 233 | 293 | 303 | 314 | 322 |
| Sales | $ 120.1 | $ 120.1 | $ 158.0 | $ 167.3 | $ 170.3 | $ 174.1 |
| Operating Profit (Loss) | $ 3.4 | $ 3.4 | $ 15.6 | $ 21.8 | $ 20.3 | $ 20.9 |
| Property Taxes | ( 2.6) | ( 0.8) | ( 0.8) | ( 0.8) | ( 0.8) | ( 0.8) |
| Past Service Pension | ( 3.3) | - | - | - | - | - |
| Profit (Loss) before Interest | $( 2.5) | $ 2.6 | $ 14.8 | $ 21.0 | $ 19.5 | $ 20.1 |
| Interest | ( 12.9) | ( .8) | ( 0.8) | ( 0.8) | ( 0.8) | ( 0.8) |
| Cash Profit (Loss) | $( 15.4) | $ 1.8 | $ 14.0 | $ 20.2 | $ 18.7 | $ 19.3 |
| Non P. & L. Cash Required | | | | | | |
| Capital | | ( 5.0) | ( 5.0) | ( 5.0) | ( 5.0) | ( 5.0) |
| Resultant Cash Flow | | $( 3.2) | $ 9.0 | $ 15.2 | $ 13.7 | $ 14.3 |

SYDNEY STEEL CORPORATION

PROJECTED CASH REQUIREMENT
$ MILLIONS

| | Government Writeoff Year I | Total Cash Flow at the end of Year III | Total Cash Flow at the end of Year V |
|---|---|---|---|
| OPTION 1 - PLANT SHUTDOWN | | | |
| (a) Mothball plant for future use. | $(300) | - | - |
| (b) Orderly shutdown - dispose assets. | (285) | - | - |
| (c) Orderly shutdown - dispose assets - create industrial park. | (289) | - | - |
| OPTION 2 - OPERATE WITH DEBT FREE STRUCTURE | | | |
| (a) Government ownership | $(288) | $ 16 | $ 42 |
| (b) Sell to private investors ($30 million) | (258) | 21 | 49 |
| (c) Sell to employees/local investors (0 sale price) | (288) | 21 | 49 |